The G20 Process and the Development Agenda

Remarks prepared for the High-Level Korea-World Bank Conference on Post- Crisis Growth and Development

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When considering the role of the G20 in addressing international development issues, there are four main questions to be addressed. They are:

1. Why is development a critical G20 agenda item?
2. How different is the post-crisis world as one looks at development prospects and policies?
3. What has changed in development thinking and development policy advice?
4. What can the G20 contribute to developing economies' growth prospects?

I will address each question in sequence.

Why is development such a critical agenda item for the G20?

Development is a matter to be addressed by the G20 for at least five reasons. First, in reference to the economic and financial crisis, there is the innocent bystander problem. While developing countries bore the effects of the global recession via increased food prices and decreased demand for exports, they had little to no involvement in the events that precipitated the crisis. They were, in effect, innocent bystanders to an event beyond their control. Second, developing economies are important centers for future growth. Third, demographic trends will mean more people movement in the future, whether this process is managed by governments or not. Fourth, issues of the global commons (such as those covered by the G20) involve all countries, not just G20 members. Developing economies could be the ones most affected by new international financial and economic agreements. Lastly, the legitimacy and legacy of the Group are at stake if voice of poor countries are not sufficiently recognized or considered in discussions.

How different is the post-crisis world and what have we learned?

If the international system has learned anything from the Crisis, it's that countries with good fiscal policy dominated recovery. Those governments with fiscal space managed to cope better with the impact of the crisis than those that were constrained. Finance and treasury ministers need to be aware that future borrowing costs will rise due to increased regulation, risk-aversion, and OECD debt levels. We have accepted that slower global growth prospects will be the new normal for many countries, and that excessive savings may actually impede needed rebalancing. We have also learned that sources of growth shifted before, during, and after the crisis, and they won't revert soon. Lastly, and perhaps most importantly for developing countries, we have learned that effective institutions matter *everywhere*.

What's new in development thinking and advice?

Developed countries don't have all the answers and are demonstrating increased humility in the face of economic recovery. As was witnessed in the financial crisis, the high income countries can actually be the source of international economic instability and decline. For the most part, governments are being lauded for their quick response to stabilize their economies and stimulate the rebound in growth, which has revived the public's appreciation for government action, both in the developed and developing would. Focusing just on developing countries, there is a greater need for domestic resource mobilization and local sources of growth. Reliance on the developed world is no longer the singular strategy. Although as the Growth Commission pointed out, there is still no other alternative to the global market for exports. South-South trade, for example, can yield large returns, as well as establish a more diversified trade portfolio. There is also a general acceptance that greater distinction among various types of capital flows is smart policy, and rather than impede capital flows across the board to protect a competitive exchange rate, for example, countries would be well advised to focus on the discouragement of short-term, reversible and volatile flows. Lastly, bolstering fiscal position is perhaps even more important than the accumulation of international reserves because similar to nuclear deterrence, once reserves are used, confidence is affected. Fiscal stances, on the other hand provide stronger international assurances of solvency.

What can the G20 contribute to enhance developing economies' growth prospects?

The G20 has a significant potential to contribute to the growth of developing countries. Some G20 members can begin by getting their own houses in order to reduce large potential output gaps. This implies that an early exit from expansionary fiscal policies may be short-sighted, particularly since growth generates tax revenues and helps the deficit. Others, meanwhile, can turn to a more balanced pattern of growth that allows for export space for new entrants. All G20 countries can resist the urge to slip into economic nationalism and thereby cut out potential new trading partners, as well as institute better financial risk management to control speculation, rather than impede all capital flows. G20 countries have the responsibility to pave the way for the development of clean technologies in order to foster sustainable growth, as well as champion the conclusion of the Doha trade agreement. By taking up the Doha mantle, Group members can kick-start momentum in world trade and help the poorest countries gain access to international markets. They can also demonstrate that they are increasingly sharing is the custodianship of global public goods.